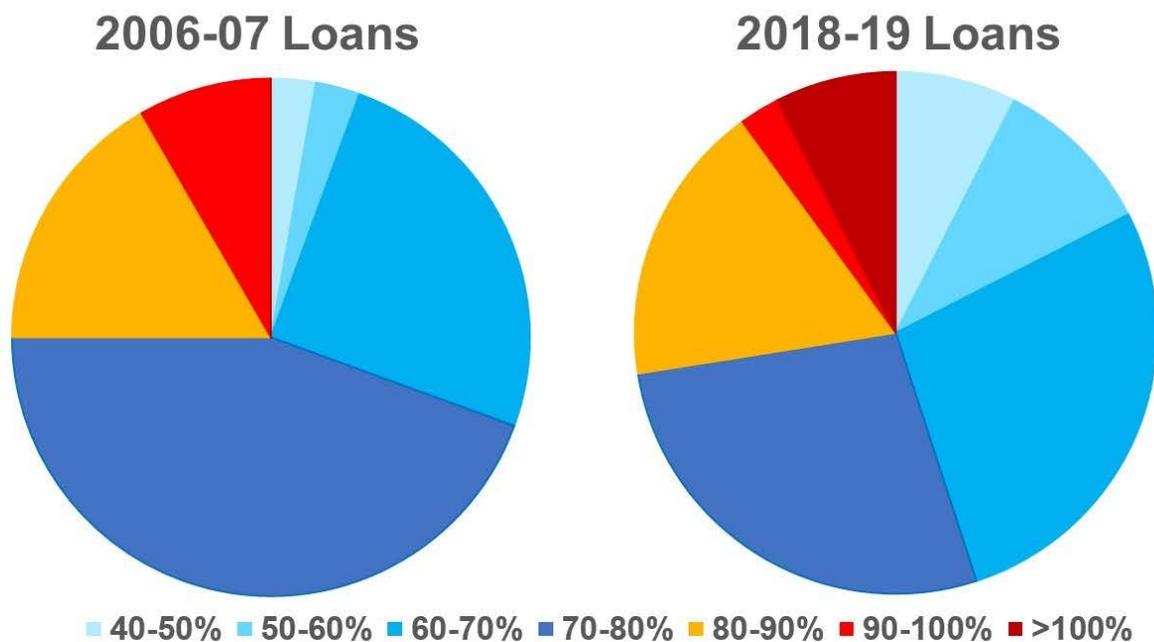


Central Texas Lenders Are More Restrained Heading Into Downturn

CoStar Insight: Loan-To-Value Analysis of Major Central Texas Sales in 2018-2019 Compared to 2006-2007

Top 40 Central Texas Loans: LTV Distribution



Source: CoStar



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With residents of [Austin](#) and [San Antonio](#) under stay-at-home orders, most commercial real estate activity in Central Texas has ground to a halt. As tenants struggle to make rent, the impacts on property net operating incomes could be dramatic as owners, not receiving sufficient income to service existing loans, could go into default.

As the U.S. commercial real estate market faces dire conditions, taking stock of leverage levels of larger property sales locally could help weigh the risk today relative to other periods of market distress, such as the period prior to the Great Recession.

This analysis relies on reported sales prices, which limits the sample size in Texas, a nondisclosure state. It's also worth noting that every sale has particulars regarding potential risk. Nevertheless, the analysis is useful as a starting point to assess the debt load in Central Texas.

Comparing loan-to-value (LTV) figures — the ratio between the total sales price and the amount financed by the buyer — for the 40 largest property sales across Austin and San Antonio with debt financing during 2018-2019 and in 2006-2007 shows that properties with high LTV ratios over 70% accounted for about 60% of trades during 2018-2019, compared to 70% in 2006-2007, indicating a slightly lower risk today compared to the 2006-07 period.

While lenders have, by and large, been relatively cautious compared to the prior recession, 30% of recent loans registered at least an 80% LTV ratio. Some of those loans include apartment investors who borrowed more than the reported sale price to fund improvements to the property.

The longer the crisis persists, the likelier it is that borrowers will default on loans. Though Texas Gov. Greg Abbott has announced steps to reopening the state's economy, it's unclear whether residents will feel safe enough to return to any normalcy, absent a vaccine. That could further delay a recovery and result in additional store closures at an unprecedented rate.